

HELP US TO HELP THEM

Policy determinants of GVC participation and upgrading: how can research support policy needs



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What questions do we face by governments in client countries?

How can I become the next...China/Singapore/Ireland?

- Emulate policies that worked elsewhere
- Political economy of reform facilitated by following a role model

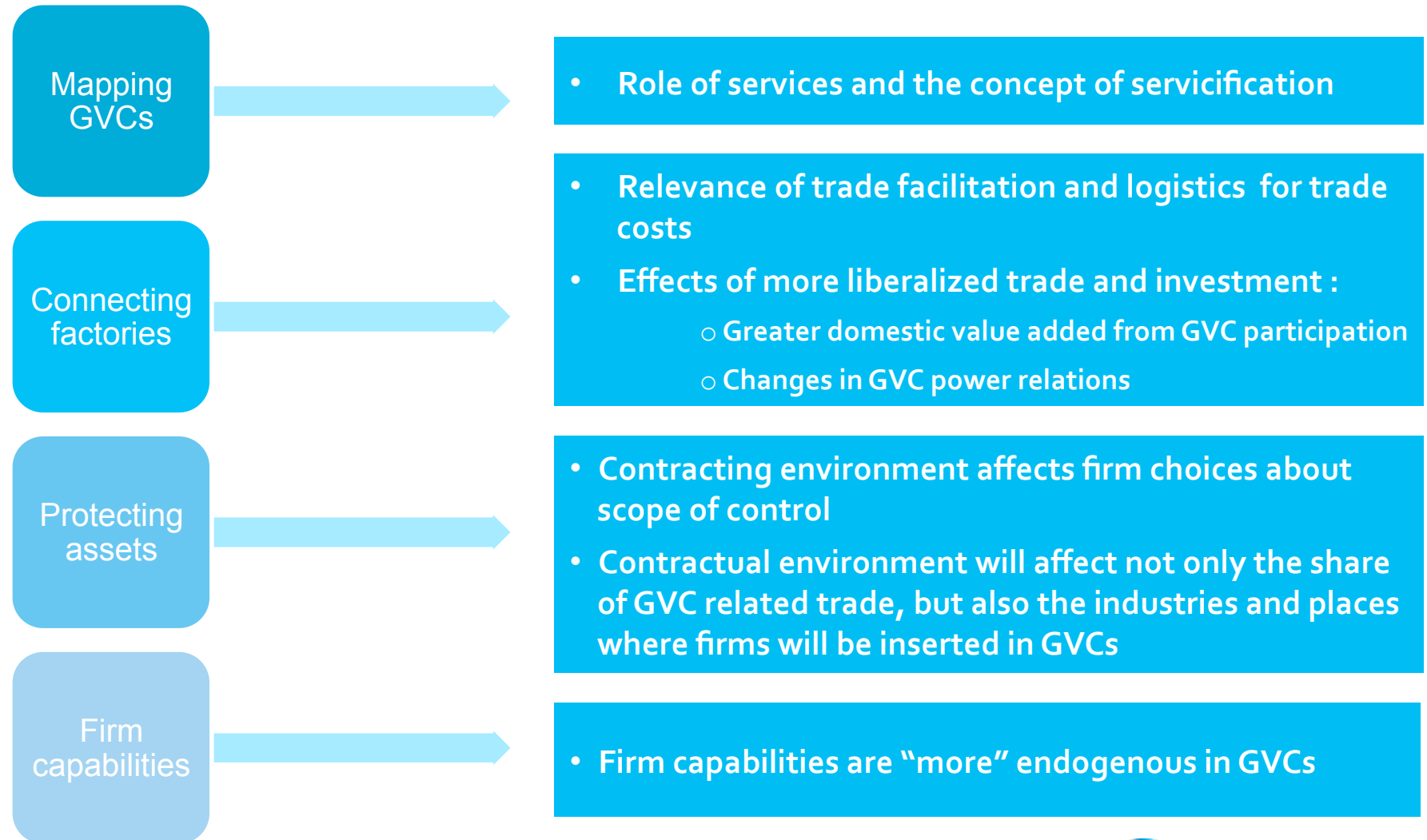
What sectors? What GVCs?

- Limited resources/easier political economy than for horizontal reforms
- Need for an entry point, often into manufacturing
- Need to become visible on the map of international investment

What public policies?

- Picking winners and some forms of a neo-industrial policy vs. a pro-competitive economy-wide reform agenda
- Subsidies, incentives and tax revenue considerations
- Negotiate conditions in bilateral, regional, or multilateral agreements
- Maximize the gains and limit the costs from preferential trade agreements

What GVC specific research findings have crystallized and affect policy decisions in some major way?



Services in GVCs are as important as manufacturing

What crystallized into accepted wisdom:

- Services are as important as manufacturing in GVCs and the separation between the two is increasingly appearing a statistical artifact
 - High value added tasks are high in services content
 - They are exported primarily embedded in manufacturing

Policy implications (examples):

- Quantifying services and carrying out regulatory diagnostics as priority for guiding reform
- Liberalizing manufacturing without opening up services may neutralize intended effects on exports
- Distributional implications, as SMEs enter GVCs predominantly as services providers
- Level of *de facto* competition in the domestic services market matters
- Drivers of competitiveness and upgrading in GVCs through servicification are complex
 - Affected areas including language, culture, geographical situation, political context, time zone, level of education

Logistics performance and connectivity are at least as important as tariffs in trade costs

What crystallized into accepted wisdom:

- Distance is a major source of trade costs, but logistics performance and connectivity are at least as important as tariffs.

Policy implications (examples):

- Focus on predictability, reliability, and timeliness in countries' trade facilitation and logistics agenda (case studies from private sector)
- Domestic segment of logistics and connectivity are as important as connectivity of countries at their port of entry and determine the geography of GVCs within countries
- Disproportionately high costs for SMEs , almost three times as much as large firms call for collective actions and innovative solutions
- Disproportionately high costs for unfavorable geographic settings

A more liberalized trade and investment regime supports export performance

What crystallized into accepted wisdom:

- Share of domestic value added tends to rise as trade and investment regimes become more liberalized
- GVC reduce the incentives to impose trade restriction on trading partners

Policy implications (examples):

- Costly barriers to entry and upgrading in GVCs:
 - Tariff and other trade policies in many countries still designed for a non-GVC world
 - Restrictions on FDIs on equity, licensing, personnel may hamper GVC participation
 - NTM proliferation even in well established trade blocks
- Deep agreements are the solution?

Contracting environment is important

What crystallized into accepted wisdom:

- Contracting environment determines firm decisions about scope of control
- It affects not only the share of GVC-related trade, but also the industries and places where firms will be inserted in GVCs

Policy implications (examples):

- Dispute settlement frameworks highly important as a determinant of GVC attraction
- More generally, uncertainty about rules and their implementation is a deterrent for new domestic and foreign investment

Firm capabilities in GVCs become endogenous

What crystallized into accepted wisdom:

- Managerial and workforce skills, technology adoption, and innovation are higher in export oriented firms and domestic subsidiaries of MNEs
- Human resource management matters greatly (HRM), and MNEs export their HRM practices to destination countries

Policy implications (examples):

- Role of tacit knowledge
- Private initiatives and public policies: where is the sweet spot?
 - Importance of employer sponsored trainings
 - Supplier development programs
 - Skills-development programs

Researchers, help us help them

Narratives are needed

- In conjunction with analysis and GVC mappings
- As case-studies, Kommerkollegium Style
- As case studies of entire policy frameworks of individual countries
- By cross-fertilizing with other disciplines

Tackle the “What sectors? , what GVCs?” question

- Alarm-bell or occasion to link debate on industrial policies to growth analyses?
- How do specific subsidies and specific incentives work/not work in presence of specific rigidities and market failures?
- What about sub-suppliers and other actors beyond 1st tier?

Conceptualize the effects of policies, individually and collectively

- Does sequencing matter? Do some reforms have a more systemic impact? Do some have a domino effect, triggering others?
- Do some reforms substitute one another? Which have a multiplicative effect? Which instead have an additive effect?

Thank you!

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